

CLARK COUNTY ***WASHINGTON***

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2004

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proud past, promising future

CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

June 20, 2005

To the Honorable Board of Commissioners and Citizens of Clark County:

In accordance with the provisions of Chapter 36.22 of the Revised Code of Washington, we are pleased to submit the Comprehensive Annual Financial Report (CAFR) of Clark County for the fiscal year ended December 31, 2004. The financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by independent auditors from the Office of the Washington State Auditor.

The 2004 CAFR meets the requirements of GASB #34 with the inclusion of government-wide statements that are based on full accrual accounting and includes capital assets and long-term debt. In 2003, the County elected to implement the "Modified Approach" for reporting road systems, stormwater systems, and bridge infrastructure, as defined by GASB #34. Under GASB #34, eligible infrastructure capital assets are not required to be depreciated if they are being preserved under certain conditions. Further discussion about these changes are explained in some detail within the Management's Discussion and Analysis section of this CAFR, which immediately proceed the basic financial statements in the financial section of this report.

This report consists of management's representations concerning the finances of the County. Consequently, responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of Clark County. Clark County has established a comprehensive internal control framework to provide a reasonable basis for making these representations. Management of the County has established internal controls that are designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the County's internal controls have been designed to provide reasonable assurance that the financial statements will be free from material misstatements. To the best of our knowledge and belief, the data presented is accurate in all material respects and disclosures.

The Comprehensive Annual Financial Report is developed to provide meaningful financial information to the public, legislative bodies, creditors, investors, and teachers and students of public finance. It is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter and a presentation of the County's organizational structure and elected officials. The financial section includes the independent auditor's report, management discussion and analysis, government-wide statements, fund statements, notes to the financial statements, and combining and individual fund financial statements and schedules. The statistical section presents financial and demographic information, which is generally presented on a multi-year basis.

The Office of the Washington State Auditor conducts an annual audit of the financial statements of Clark County as required by state law. The goal of the independent audit is to provide reasonable assurance that the financial statements of the County for the fiscal year ended December 31, 2004, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the overall financial statement presentation. The auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that Clark County's financial statements for fiscal year ended December 31, 2004, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

Their examination is conducted in accordance with generally accepted auditing standards, *Government Auditing Standards* issued by the Comptroller of the United States, and the provisions of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.

The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act of 1984 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Information related to this single audit act, including the schedule of expenditures of federal awards and state/local financial assistance, findings and recommendations, and auditor's reports on the internal control structure and compliance with applicable laws and regulations, will be issued in a separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. Clark County's MD&A can be found immediately following the report of the independent auditors.

Profile of Clark County

Clark County, incorporated in 1849, is located in the southwestern portion of the State of Washington, on the Columbia River, approximately 80 miles from the Pacific Ocean. The Columbia River forms the western and southern boundaries of the County and provides over 41 miles of river frontage. The North Fork of the Lewis River forms the northern boundary of the County and Skamania County and the Cascade Range form the eastern boundary. The land area of the County encompasses 405,760 acres, approximately two-thirds of which lie in the foothills of the Cascade Range.

Located directly across the Columbia River from Portland, Oregon and 150 miles south of Seattle, Clark County is one of the fastest growing areas in the Pacific Northwest. The Columbia River and the proximity of the Pacific Ocean have a strong influence on the economy, climate and recreational activities of the area.

The County enjoys a diversified and growing economy with a strong manufacturing base, as well as a solid commercial sector, valuable port activities and significant government and service sectors. Additionally, the County is well served by a variety of transportation facilities. Interstates 5 and 205 access the Portland area, and the Ports of Vancouver, Ridgefield, and Camas/Washougal offer port facilities which capitalize on the Columbia River's status as a fresh water, deep draft harbor between Canada and California. Transcontinental railroads, trucking firms, bus lines, and the Portland International Airport also serve the County

Clark County is a *statute county*, which means that the organization of the County is prescribed by state statute. Locally elected officials include the County Assessor, Auditor, Clerk, Prosecuting Attorney, Sheriff, Treasurer, nine Superior Court Judges, five District Court Judges, and a three member Board of County Commissioners. These elected officials govern the County and establish policies on the basis of the local community's needs and preferences. The Board of County Commissioners acts as the County's legislative body and appoints a County Administrator who acts as the chief administrative officer of the County and oversees eleven departments.

In accordance with GASB #14 "The Financial Reporting Entity", the County has identified one entity as a component unit. By virtue of its authority to exercise influence over its operations, the County has included the financial statements of the Industrial Revenue Bond Corporation as a blended component unit reported as a special revenue fund. The County also reports its investment in a governmental joint venture: Clark Regional Emergency Services Agency.

The County's biennial budget serves as the foundation for financial planning and control. State law (RCW 36.40) establishes the general requirements of Clark County's biennial budget process. The law requires the County to initiate the budget process on or before the second Monday in July, by requesting budget estimates for the ensuing year from each County department. These estimates must be filed on or before the second Monday in August. The County is required to present a compilation of these estimates, including revenue projections, to the Board of Commissioners upon or before the first Tuesday in September, or if the Board so chooses, the first Tuesday in November. A compilation of submissions is then prepared, and copies are made available to the public. The Commissioners must schedule a hearing on the budget for the first Monday on October, or if the Board so chooses, the first Monday in December. The budget hearing may be continued from day to day for no more than five days. At the conclusion of the hearing, the Board of Commissioners adopts the budget. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated budget has been adopted. The biennial budget is adopted and systematically monitored on the fund level for special revenue and capital project funds and on a department level for the general fund. Personal service costs in each fund are controlled by position. The acquisition of capital items is approved on an item by item basis in accordance with a long-term capital acquisition plan.

Factors Affecting Financial Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local Economy

Clark County was the fastest growing county in Washington (ranked by percentage change) between 1990 and 2000, with population growth of 45% for the ten years. Between 2000 and 2004, County population increased by an additional 11% and ranked second in the state by percentage change. Two forces contributed to this growth: high-tech manufacturing and migration from other areas, in particular, from Portland, Oregon. One-third of the county's labor force commutes across the river to Portland everyday. The county attracted many of these former Portland residents because of lower housing costs, available land, and good schools. The population for Clark County at year-end of 2004 was approximately 383,300.

The trend for the past few years in the local employment market has seen a higher unemployment rate than the State unemployment rate. During 2004, the unemployment rate in Clark County reached a high of 9.6% but dropped to 6.6% by December 2004, (compared to 8.7% in December 2003 and 7.6% in 2002). The State unemployment rate was 5.9% at the end of 2004. Approximately 12,900 Clark County residents were looking for work at the end of 2004. The total Clark County resident work force numbered approximately 184,000 in December 2004.

New housing continued to dominate the local construction market, with over \$305 million in new single family housing permits issued in the unincorporated county in 2004. In addition, approximately \$148 million in commercial permits were issued in 2004.

In the next few years, the County will continue to face financial challenges in the form of a growing urban population, potential future annexations, voter approved tax limitation measures, and an uncertain economic future.

Long-Term Financial Planning

The County has capital investments planned over the next several years for the following areas:

- Continued investment in technology infrastructure including a new assessment/taxation system and new voting system.
- Transportation improvement plan, including 32 new projects and several carry-over and on-going projects at an estimated cost of nearly \$159 million, to be constructed over the next six years
- Completion of the exhibition center at the county fairgrounds in early 2005. An amphitheater at the fairgrounds was constructed and donated to the County by a private corporation in 2003.
- Construction of the Center for Community Health (\$38M), which will house County social and health services, non-profit organizations, and other governmental entities involved in providing health related services within the County .

Cash Management Policies and Practices

The Clark County Treasurer is empowered by state law to invest cash holdings as directed on behalf of Clark County and other taxing districts. Investments are made in certificates of deposit, bankers acceptances and other authorized investments within guidelines established by the Office of the State Treasurer.

In 1989 the Treasurer's office implemented a local government investment pool. The investment pool allows more flexibility in managing investments and idle cash, and allows for larger investments for longer periods of time, thus allowing for higher rates of return. The pool had an average monthly maturity in 2004 of approximately 7.5 months. The annualized yield of the pool was 1.74% in 2004, compared to 2.18% in 2003. The average pool balance for 2004 was approximately \$451 million and total interest earnings for the pool were \$7,899,344. The County retains an investment advisory consultant to facilitate cash flow needs for the County and review the investment portfolio on a quarterly basis.

The County also participates in the State of Washington investment pool, which is overseen and managed by the State Treasurer, Governor, State Auditor and Joint Legislative Audit and Review Committee.

Risk Management

In 2002, the County became a member of the Washington Counties Risk Pool (pool). State law authorizes governmental entities to form or join a pool for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. The state pool was formed on August 18, 1988 when counties in the state of Washington joined together by signing an interlocal agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Twenty-eight counties have joined the pool. Members make an annual contribution to fund the pool.

All pool joint self-insurance liability coverage, including public officials' errors and omissions, are on an "occurrence" basis. The pool also provides property and special events/concessionaires optional group purchase insurance coverage for its members.

The County is self-funded for unemployment insurance claims and for most industrial insurance (worker's compensation) claims. Resources are being accumulated to meet potential losses.

Pension and Other Post-Employment Benefits

Substantially all County full time employees and qualifying part-time employees participate in one of the statewide public employee retirement systems administered by the Department of Retirement Systems (DRS), under a cost-sharing multiple-employer defined benefit public employee retirement and defined contribution retirement plans. The DRS, a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan.

The state Pension Funding Council and the director of the Department of Retirement Systems, based on recommendations by the Office of the State Actuary, set employer and employee contribution rates to continue to fully fund the plan. All employers are required to contribute at the level established by state law. The methods used to determine the contribution rates are established under state statute in accordance with RCW chapters 41.40 and 41.45.

The County also provides post-employment health and dental care benefits for certain retirees and their dependents. At the end of 2004, there were 55 retired employees receiving these benefits, which are financed on a pay-as-you-go basis.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Clark County for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2003. Clark County has received this prestigious award for the last twenty-three consecutive years. In order to be awarded a Certificate of Achievement, the County must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the County has received the GFOA Distinguished Budget Presentation Award for sixteen consecutive budget periods, most recently for its biennial budget document dated 2003/2004. In order to qualify for the Distinguished Budget Presentation Award, the County's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operating guide, and a communication device.

We express our appreciation to those who have devoted their time to the preparation of this report, especially the Financial Services staff in the Clark County Auditor's office and the Clark County Treasurer's office. We also recognize the professional efforts of the State Auditor's Office in their audit, and the direction and advice they provide us throughout the year.

Finally, we express our sincere appreciation to the Board of County Commissioners for their continued support, and their tireless efforts in working for the betterment of the community and in making Clark County a great place to live, work and play.

Respectfully submitted,

Greg Kimsey
Clark County Auditor

John Ingram
Director of Finance